Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 March 2021**	**AGENDA ITEM NUMBER**
TITLE:	**FUNDING & EMPLOYER UPDATE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Employer update		

1 THE ISSUE

1.1 To provide the Committee with an up to date summary of the employer base of the Fund, changes and current issues. This is to be considered in the context of employer risk.

1.2 Given the range and number of individual employers in the Fund each posing different levels of risk the Fund has developed a comprehensive framework for monitoring employer risk. This framework helps direct resources where closer monitoring is required and enables the Fund to identify any emerging risks early so that actions can be taken to prevent sub optimal outcomes.

1.3 At the June committee meeting a summary of employer covenant work will be provided.

2 RECOMMENDATION

2.1 The Committee notes the report.

3 FINANCIAL IMPLICATIONS

2.1 The triennial valuation assesses the funding position of the Fund as a whole and sets the contribution rates for individual employers for the following 3 years. The next valuation will be at 31 March 2022. An interim valuation at the whole fund level will take place at 31 March 2021. The purpose of the interim valuation is to give the Fund and employers an indication of the potential future changes in employer contributions. This will particularly important in view of the financial implications resulting from the pandemic.

4 REGULATORY AND POLICY CHANGES

4.1 There have been a number of regulatory changes that need to be incorporated when managing employer events (such as exit) as follows:

McCloud: This refers to the age discrimination case brought in respect of the Judges and Firefighters schemes relating to age protections when the scheme was changed in 2014. The Government confirmed that the judgement would apply to the LGPS, and the Scheme Advisory Board set out how McCloud should be allowed for in the 2019 Valuation. There has been no further update, although a Ministerial Statement is expected soon. Although no change to the Regulations has yet been made, we know that a liability exists. Therefore, potential costs arising from McCloud need to be considered when employers exit the Fund.

4.2 **Exit Credits:** Changes to the Regulations were made in March 2020 setting out how the Fund should deal with surpluses when an employer exits from the Fund (known as an exit credit). So far only two exit credits have been paid to exiting employers and these totalled less than £5,000. The risk to the Fund of having to pay a large surplus to an exiting employer is managed by monitoring employers in surplus, liaising with outsourcing employers to vary their contracts where possible and ensuring the issue is addressed in new admission agreements

4.3 **Funding Flexibilities:** The Regulations were changed in September 2020 to introduce employer flexibilities which allow, in certain circumstances the following:

- contribution rates to be reviewed between valuations
- exit payments to be paid according to a payment plan
- employers to enter into a Deferred Debt Arrangement

Amendments to the Funding Strategy Statement were agreed by Committee in December. The Scheme Advisory Board has consulted on guidance concerning the implementation of these Regulations and just published final guidance. The Fund and Actuary are now finalising the Funding Strategy Statement and consulting employers. The introduction of these flexibilities will no doubt increase workload as employers approach the Fund to actively manage their pension risk. These changes will also enable the Fund to proactively manage employers' exits as their membership reduces.

5 EMPLOYER ACTIVITY UPDATE

5.1 A summary of employer activity from 1 April 2020 to date is set out in the table below:

	At 31/03/2020	Joined	Left	At 31/01/2021
Scheduled				
Local Authority	4	0	0	4
Academies	238	11	1	248
Higher and Further education	8	0	0	8
Town and Parish councils	35	0	0	35
Other Scheduled and resolution employers incl. WECA and Avon Fire	8	0	1	7
Admitted				
Admission bodies guaranteed	108	19	20	107
Admission bodies unguaranteed	8	0	0	8
Total	**409**	**30**	**22**	**417**

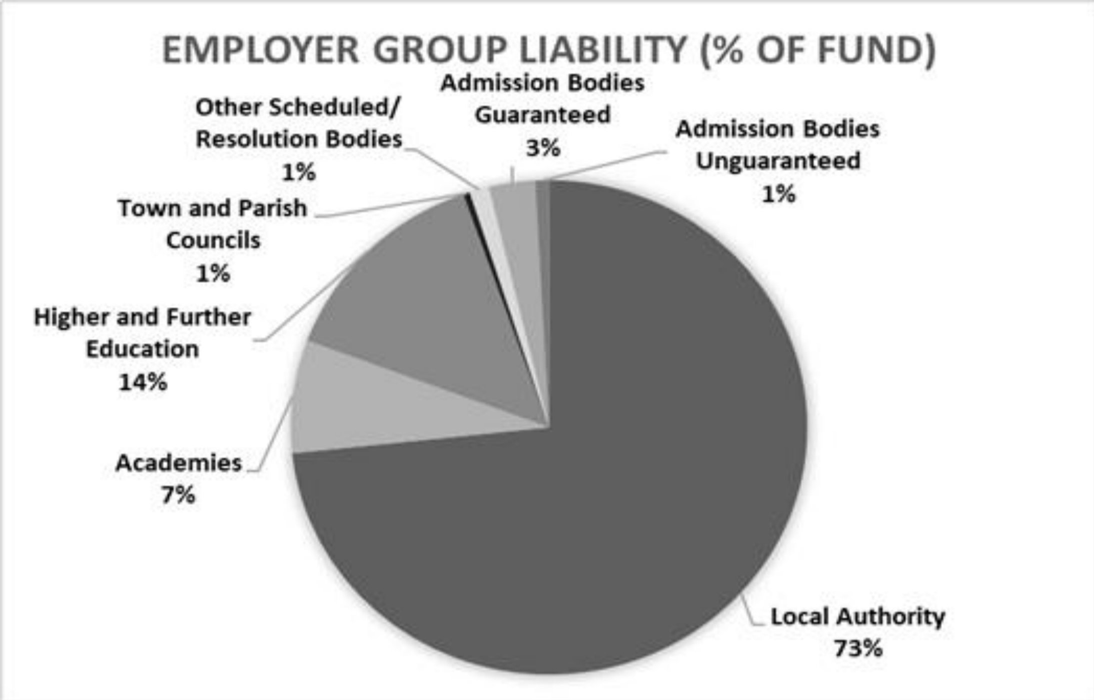
5.2 Although academy conversions have slowed, the government's policy continues to support academisation and so conversion to academy status is expected to continue at least at the current rate. There continues to be changes in the academy employer base with one academy closure in the period and single academies joining Multi Academy Trusts (MAT). The Fund has 30 MAT's, the three largest of which have 20 or more academies in our Fund.

5.3 All admitted employers joining the Fund are required to have a guarantee in line with the Funds policy. Most admissions are from outsourcings, particularly by MAT's outsourcing catering and cleaning services. Unitary Authority related admissions also reflect cleaning and catering at maintained schools being outsourced as well as care and leisure contracts. The number of exiting admitted employers reflects short term outsourcing contracts ending when the last member leaves or the contract is re-let.

5.4 The total number of employers appears to be stabilising after recent years of growth driven in the main by the government's academy program. Admissions and exits are processed in accordance with the Regulations and Funding Strategy Statement which are designed to protect the Fund from financial risk.

5.5 The pandemic has created unprecedented upheaval for most employers resulting in change due to employer strategic decisions and individual member decisions. Employers are reviewing their costs and, in some cases, where permitted, this can mean considering closing to new accruals or exiting the Fund. The Fund is working with many employers, in a wide range of circumstances, to share information for decision making (including membership data, funding updates) whilst ensuring the Fund's policies are communicated clearly and implemented in accordance with the Regulations and Funding Strategy Statement.

5.6 A summary of the liabilities and membership by employers is shown below:



5.7 The table shows how the liabilities in the Fund are distributed. The unitary authorities have tax raising powers as do town and parish councils and the academies are guaranteed by the DfE. The largest group by membership and liabilities of non-guaranteed, non-tax raising bodies is the higher and further education employers; as a result, the Fund prioritises its engagement with these employers so as to manage the overall risk to the Fund.

5.8 The Fund is at risk from eight unguaranteed admission bodies (admitted to the Fund before guarantees were permitted), which are actively engaged with by officers to manage the risk to the Fund. Four are on the more prudent lower risk funding basis and the Fund holds security in the case of four employers to mitigate risk. As some of these bodies are nearing a natural exit as have few members left in the scheme, it is anticipated that the new employer flexibilities will be used where appropriate because the cost of exiting the Fund on a clean break basis has increased significantly in recent years. The yield on corporate bonds, which is used in the lower risk funding discount rate, has fallen from 2.6% at the 2019 valuation to 1.6% currently.

5.9 An Interim valuation will be completed in late 2021 to inform the Fund and employers of the potential outcome for the 2022 valuation. Given the difficult financial outlook for many employers due to the pandemic, officers will begin discussions about affordability with employers ahead of the 2022 valuation.

6 RISK MANAGEMENT

6.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. The Funding Strategy is designed to manage this risk to ensure the Fund achieves full solvency over an appropriate period. Assessing the strength of an employing body's covenant is also a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process is part of the process for setting funding plans and will be discussed at the next committee meeting.

7 EQUALITIES STATEMENT

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 OTHER OPTIONS CONSIDERED

9.1 None – report for information only.

10 CONSULTATION

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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Background papers	Funding Strategy Statement
Please contact the report author if you need to access this report in an alternative format	